



NORFOLK STATE UNIVERSITY

INTERCOLLEGIATE ATHLETICS PROGRAMS FOR THE YEAR ENDED JUNE 30, 2017

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
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January 15, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
Chairman, Joint Legislative Audit
And Review Commission

Eddie N. Moore, Jr.
President and Chief Executive Officer
Norfolk State University

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below, which were agreed to by the President of **Norfolk State University**, solely to assist the University in evaluating whether the accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs of the University is in compliance with National Collegiate Athletic Association (NCAA) Constitution 3.2.4.15.1, for the year ended June 30, 2017. University management is responsible for the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs (Schedule) and the Schedule's compliance with NCAA requirements. The sufficiency of the procedures is solely the responsibility of the University. Consequently, we make no representation regarding sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Agreed-Upon Procedures Related to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

Procedures described below were limited to material items. For the purpose of this report, and as defined in the agreed-upon procedures, items are considered material if they exceed four percent of total revenues or total expenses, as applicable. The procedures that we performed and our findings are as follows:

Internal Controls

1. We reviewed the relationship of internal control over Intercollegiate Athletics Programs to internal control reviewed in connection with our audit of the University's financial statements. In addition, we identified and reviewed those controls unique to Intercollegiate Athletics Programs, which were not reviewed in connection with our audit of the University's financial statements.
2. Intercollegiate Athletics Department management provided a current organizational chart. We also made certain inquiries of management regarding control consciousness, the use of internal audit in the department, competence of personnel, protection of records and equipment, and controls regarding information systems with the information technology department.
3. Intercollegiate Athletics Department management provided us with their process for gathering information on the nature and extent of affiliated and outside organizational activity for or on behalf of the University's Intercollegiate Athletics Programs. We tested these procedures as noted below.

Affiliated and Outside Organizations

4. Intercollegiate Athletics Department management identified all intercollegiate athletics-related affiliated and outside organizations. The audit of the financial statements of the Norfolk State University Athletic Foundation was not complete at the time of this engagement and as such we were unable to review the results of the audit.
5. Intercollegiate Athletics Department management prepared and provided to us a summary of revenues and expenses for or on behalf of the intercollegiate athletics programs by affiliated and outside organizations included in the Schedule. These amount were deemed to be immaterial for detailed testing.

Schedule of Revenues and Expenses of Intercollegiate Athletics Programs

6. Intercollegiate Athletics Department management provided to us the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs for the year ended June 30, 2017, as prepared by the University and shown in this report. We recalculated the addition of the amounts in the Schedule, traced the amounts on the Schedule to management's trial balance worksheets, and agreed the amounts in management's trial balance worksheets to the Intercollegiate Athletics Department's accounts in the accounting records. We noted no differences between the amounts in the Intercollegiate Athletics Department's accounting records and the amounts on the trial balance. We discussed the nature of adjusting journal entries with management and are satisfied that the adjustments are appropriate.

7. We compared each major revenue and expense account over ten percent of total revenues or total expenses, respectively, to prior period amounts and budget estimates. Variances exceeding ten percent of prior period amounts or budget estimates are explained below:

<u>Line Item</u>	<u>Explanation</u>
Direct Institutional Support	Intercollegiate Athletics had an increased deficit in the current year, which resulted in a 28 percent increase in this revenue source. The University provided direct funds to support the operations of intercollegiate athletics, which were mostly comprised of auxiliary reserve funds.
NCAA Distributions	NCAA Distributions increased by \$424,320 or 43 percent over the prior year due to the University receiving a one-time distribution from the NCAA related to the liquidation of a NCAA quasi-endowment.
Athletic Student Aid	Athletic Student Aid expenses increased by \$358,482 or ten percent from the prior year. This increase is due to the combination of a five percent tuition increase for the 2016-2017 academic year and a five percent increase in the number of active student athletes. The ratio of in-state student athletes to out-of-state student athletes can also result in fluctuations in this line item.

Revenues

8. We obtained the amount of ticket sales revenue from the Schedule. This amount was deemed to be immaterial for detailed testing.
9. We obtained an understanding of the institution's methodology for allocating student fees to intercollegiate athletics programs. We compared student fees reported in the Schedule to amounts reported in the accounting records and an expected amount based on fee rates and enrollment. We found these amounts to be substantially in agreement with minor differences attributed to the methodology used for projecting student fee revenue.
10. We compared amounts reported in the Schedule for direct institutional support to institutional budget transfer documentation and/or other corroborative supporting documentation, and noted them to be substantially in agreement.

11. We obtained the amount of game guarantee revenues from the Schedule. This amount was deemed to be immaterial for detailed testing.
12. Intercollegiate Athletics Department management provided us with a listing of all contributions of moneys, goods or services received directly by the Intercollegiate Athletics Programs from any affiliated or outside organization, agency or group of individuals that constitutes ten percent or more of all contributions received during the reporting period. Except for contributions received from the Norfolk State University Athletic Foundation, an affiliated organization, we noted no individual contribution which constituted more than ten percent of total contributions received for Intercollegiate Athletics Programs. Contributions from the Norfolk State University Athletic Foundation were deemed immaterial for detailed testing.
13. We obtained the amount of in-kind contributions from the Schedule. This amount was deemed immaterial for detailed testing.
14. Intercollegiate Athletics Department management provided us with a listing and copies of all agreements related to participation in revenues from tournaments, conference distributions, and NCAA distributions. We gained an understanding of the terms of the agreements and agreed selected amounts to proper posting in the accounting records and supporting documentation.
15. We obtained the amount of revenue from program sales, concessions, novelty sales, and parking from the Schedule. This amount was deemed immaterial for detailed testing.
16. We obtained the amount of revenue from royalties, licensing, advertisements, and sponsorships from the Schedule. This amount was deemed immaterial for detailed testing.
17. We obtained the amount of revenue related to other revenue recorded in the Schedule. This amount was deemed immaterial for detailed testing.

Expenses

18. Intercollegiate Athletics Department management provided us a listing of institutional student aid recipients during the reporting period. Since the University used the NCAA Compliance Assistant software to prepare athletic aid detail, we selected ten percent of individual student-athletes across all sports and obtained the students' account detail from the institution's student information system. We agreed each student's information to the information reported in the NCAA Membership Financial Reporting System. We also ensured that the total aid amount for each sport agreed to amounts reported as Financial Aid in the student accounting system. Differences between the listing generated by the NCAA Compliance Assistant software and the Schedule were determined to be reasonable. An adjustment was made to the Schedule to reclassify summer and fifth-year student aid

expenses for active athletes from the Non-Program Specific column to columns for the applicable sports.

19. We obtained the amount of expenses related to game guarantee agreements for home games during the reporting period. This amount was deemed to be immaterial for detailed testing.
20. Intercollegiate Athletics Department management provided us with a listing of coaches, support staff, and administrative personnel employed and paid by the University during the reporting period. We selected and tested individuals, including football and men's and women's basketball coaches, and compared amounts paid during the fiscal year from the payroll accounting system to their contract or other employment agreement document. We found that recorded expenses equaled amounts paid as salary and bonuses and were in agreement with approved contracts or other documentation.
21. We discussed the Intercollegiate Athletics Department's recruiting expense and team travel policies with Intercollegiate Athletics Department management and documented an understanding of those policies. We compared these policies to existing University and NCAA policies and noted substantial agreement of those policies.
22. We selected a sample of disbursements for team travel, direct overhead and administrative expenses, indirect costs paid to the institution by athletics, and other operating expenses. We compared and agreed the selected operating expenses to adequate supporting documentation. We found all reviewed amounts to be properly approved, reasonable to intercollegiate athletics, and properly recorded in the accounting records.
23. We obtained the amount of debt service payments for athletics facilities for the reporting year. This amount was deemed to be immaterial for detailed testing.
24. We obtained an understanding of the University's methodology for charging indirect cost to the athletic department. We evaluated indirect cost charges for reasonableness, and an adjustment was made to reclassify these expenses from the "Direct overhead and administrative expenses" line item to the "Indirect cost paid to the institution by athletics" line item. The NCAA reporting framework for Virginia's public institutions, which was developed to comply with Chapter 704 of the 2015 Acts of Assembly, requires separate reporting of indirect cost paid to the institution by Athletics. Institutions must combine this line item with "Direct overhead and administrative expenses" for reporting in the NCAA Membership Financial Reporting System.

Other Reporting Items

25. We agreed total outstanding institutional debt to supporting debt schedules and the University's unaudited financial statements, as the audited financial statements were not yet available.

26. We obtained the fair value of athletics dedicated endowments from the Schedule. This amount was deemed immaterial for detailed testing.
27. We agreed the fair value of institutional endowments to supporting documentation, including the audited financial statements of the University's Foundation.
28. We obtained a schedule of athletics related capital expenditures made during the period. We selected a sample of transactions to validate existence and accuracy of recording and recalculated totals.

Additional Procedures

29. We compared the sports sponsored, as reported in the NCAA Membership Financial Reporting System, to the squad lists of the institution. We noted agreement of the sports reported.
30. We obtained the institution's Sports Sponsorship and Demographics Forms Report for the reporting year. We validated that the countable sports identified by the institution met the minimum requirements for number of contests and minimum number of participants as defined in NCAA Bylaw 20.9.6.3. We ensured that countable sports have been properly identified in the NCAA Membership Financial Reporting System for the purpose of revenue distribution calculations.
31. We obtained a listing of student-athletes receiving Pell Grant awards from the institution's student information system and agreed the total value of these Pell Grants to the amount reported in the NCAA Membership Financial Reporting System. We found differences in Pell grants reported in the NCAA Membership Financial Reporting System for 36 student-athletes. The differences between the student information system and NCAA Membership Financial Reporting System resulted in a net underreporting of Pell grants of \$44,971 in the NCAA Membership Financial Reporting System. The differences were primarily the result of not updating Pell grant award information in the NCAA Membership Financial Reporting System following changes in student status, withdrawals, or changes to course load, which result in changes in the amount awarded to the student-athlete.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs or any of the accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures or had we conducted an audit of any financial statements of the Intercollegiate Athletics Department of Norfolk State University in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported to the University. This report

relates only to the accounts and items specified above and does not extend to the financial statements of Norfolk State University or its Intercollegiate Athletics Department taken as a whole.

This report is intended solely for the information and use of the President and the University and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

JSS/alh

NORFOLK STATE UNIVERSITY
SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
For the year ended June 30, 2017

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
<u>Operating revenues:</u>						
Ticket sales	\$ 345,484	\$ 80,431	\$ 12,975	\$ -	\$ -	\$ 438,890
Student fees	-	-	-	-	6,281,718	6,281,718
Direct institutional support	2,168	1,992	688	-	4,117,454	4,122,302
Guarantees	75,000	280,000	25,000	7,500	-	387,500
Contributions	-	-	-	-	237,685	237,685
In-Kind	80,060	107,216	13,806	34,088	7,352	242,522
NCAA distributions	2,160	1,500	-	1,530	1,398,290	1,403,480
Program, novelty, parking, and concession sales	9,168	4,591	445	-	47,098	61,302
Royalties, licensing, advertisement and sponsorships	42,544	16,213	18,713	43,500	355,655	476,625
Other operating revenue	213	175	-	-	3,790	4,178
Total operating revenues	556,797	492,118	71,627	86,618	12,449,042	13,656,202
<u>Operating expenses:</u>						
Athletic student aid	1,366,525	430,921	444,383	1,792,859	49,004	4,083,692
Guarantees	40,000	6,500	4,800	-	-	51,300
Coaching salaries, benefits, and bonuses paid by the University and related entities	869,435	439,074	346,949	736,913	6,703	2,399,074
Support staff/administrative compensation, benefits, and bonuses paid by the University and related entities	37,232	2,073	(4,455)	2,339	1,736,372	1,773,561
Recruiting	35,843	50,619	31,685	6,317	-	124,464
Team travel	102,037	325,839	125,293	439,531	42,291	1,034,991
Sports equipment, uniforms, and supplies	157,300	50,122	31,448	117,796	3,743	360,409
Game expenses	82,500	68,835	46,925	37,975	148,574	384,809
Fundraising, marketing and promotion	35,000	10,250	10,000	49,800	203,958	309,008
Athletic facility debt service	-	-	-	6,000	-	6,000
Direct overhead and administrative expenses	14,253	1,906	943	784	976,735	994,621
Indirect cost paid to the institution by athletics	242,157	157,159	111,954	246,771	305,871	1,063,912
Medical expenses and insurance	-	-	-	-	295,306	295,306
Memberships and dues	-	-	320	2,048	43,889	46,257
Other operating expenses	71,577	26,445	12,370	56,383	562,023	728,798
Total operating expenses	3,053,859	1,569,743	1,162,615	3,495,516	4,374,469	13,656,202
Excess (deficiency) of revenues over (under) expenses	\$ (2,497,062)	\$ (1,077,625)	\$ (1,090,988)	\$ (3,408,898)	\$ 8,074,573	\$ -
<u>Other Reporting Items:</u>						
Total institutional debt						\$ 46,610,980
Value of athletics-dedicated endowments						\$ 50,000
Value of institutional endowments						\$ 19,543,109
Total athletics-related capital expenditures						\$ 2,888,693

The accompanying Notes to the Schedule of Revenues and Expenses of Intercollegiate Athletics Programs are an integral part of this Schedule.

NORFOLK STATE UNIVERSITY
NOTES TO SCHEDULE OF REVENUES AND EXPENSES OF
INTERCOLLEGIATE ATHLETICS PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2017

1. BASIS OF PRESENTATION

The accompanying Schedule of Revenues and Expenses of Intercollegiate Athletics Programs have been prepared on the accrual basis of accounting. The purpose of the Schedule is to present a summary of revenues and expenses of the intercollegiate athletics programs of the University for the year ended June 30, 2017, using the accounting methods used by the University to monitor intercollegiate athletics program activities. The Schedule includes both those revenues and expenses for athletic programs under the direct accounting control of the University and those on behalf of the University's athletics programs by outside organizations not under the University's accounting control. Because the Schedule presents only a selected portion of the activities of the University, it is not intended to and does not present either the financial position, changes in financial position or changes in cash flows for the year then ended. Revenues and expenses directly identifiable with each category of sport presented are reported accordingly. Revenues and expenses not directly identifiable to a specific sport are reported under the category "Non-program specific."

2. CONTRIBUTIONS

The University received \$182,997 in on-behalf payments and \$54,688 in contributions from the Athletics Foundation of Norfolk State University which was used for academic enhancement. The amounts received are included in the accompanying Schedule as contribution revenue. The University Athletics Program received \$57,375 in in-kind contributions from the Middle Eastern Athletic Conference and \$185,147 in other in-kind contributions recorded as in-kind revenue, and \$476,625 from sponsorships and vehicle contracts recorded as royalties, licensing, advertisement and sponsorships revenue.

3. DIRECT INSTITUTIONAL SUPPORT

The University provided direct funds to support the operations of intercollegiate athletics totaling \$4,122,302 during the fiscal year ending June 30, 2017. This amount includes \$50,344 from Federal Work-Study and \$4,071,959 from auxiliary reserves to supplement the athletic program from excess revenues collected in prior years.

4. CAPITAL ASSETS

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at

historical cost or estimated historical cost and donated capital assets are recorded at the estimated acquisition value at the date of contribution. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	30 years
Other improvements and infrastructure	8-25 years
Equipment	2-20 years

A summary of capital asset balances for the year ending June 30, 2017, not reflected on the Schedule, are as follows:

	<u>Ending Balance</u>
Depreciable capital assets:	
Buildings	\$37,190,053
Equipment	3,690,899
Infrastructure	-
Other Improvements	-
Total depreciable capital assets	<u>40,880,952</u>
Less accumulated depreciation for:	
Buildings	24,854,245
Equipment	1,302,035
Infrastructure	-
Other Improvements	-
Total accumulated depreciation	<u>26,156,280</u>
Depreciable capital assets, net	<u>14,724,672</u>
Total capital assets, net	<u>\$14,724,672</u>

5. ADMINISTRATIVE COST RECOVERIES

The University recovers from each auxiliary enterprise an amount to reimburse for the cost of administrative support. For the year ended June 30, 2017, the University recovered \$1,063,912 of auxiliary support costs from the intercollegiate athletics department as reflected in the Schedule.

NORFOLK STATE UNIVERSITY

As of June 30, 2017

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UNIVERSITY OFFICIALS

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